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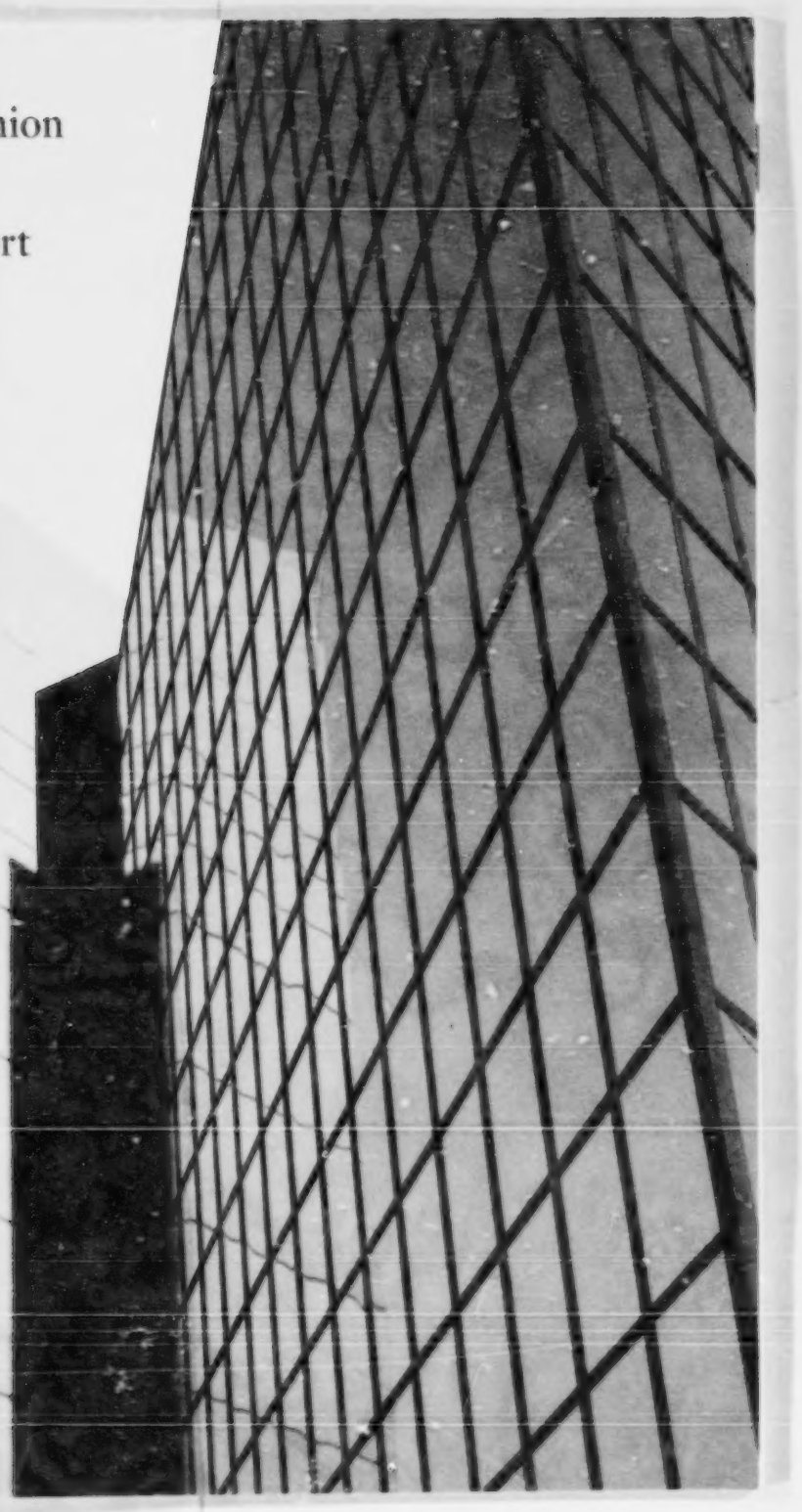
National Credit Union Administration

1989 Annual Report



NCUA

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National Credit Union Administration

The mission of the National Credit Union Administration is to ensure the safety and soundness of credit unions and to provide a flexible regulatory environment that will facilitate sound credit union development, while efficiently and effectively managing the Agency's resources and the Share Insurance Fund.

1989 Annual Report

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Transmittal Letter

National Credit Union Administration
Washington, DC 20456

April 1, 1990

The President
The White House
Washington, DC 20500

Dear Mr. President:

I am pleased to submit this Annual Report of the National Credit Union Administration for 1989.

The report covers the operations of the National Credit Union Administration and includes reports on the National Credit Union Share Insurance Fund and the National Credit Union Central Liquidity Facility.

With kindest personal regards, I am

Sincerely,

Roger W. Jepsen
Chairman

Contents

Historic Perspective	2
Chairman's Statement	4
Vice Chairman's Statement	5
Management Report	6
Economic Report	7
Changing Times	8
Chartering	9
Safety and Soundness	10
Accountability	11
The Future	12
Share Insurance Fund	13
Central Liquidity Facility	14
Financial Results	15
Auditor's Report	16
Financial Data	23
Board Members	40
Officers	41
Offices	42

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Historic Perspective

When the National Credit Union Administration Board met in New Hampshire in September 1989, it marked the Board's tenth anniversary and 55 years of the federal credit union system.

As the Board met, leaders of the credit union community expressed satisfaction with the the present system of supervision. Today, credit unions remain healthy and strong, and the Share Insurance Fund is well-funded and safe.

Credit unions had existed in this country for about 30 years when the federal system was inaugurated in 1934. At the time, 38 states and the District of Columbia had credit union statutes, and there were more than 1,000 state-chartered credit unions.

When President Franklin Roosevelt signed the legislation on June 26, 1934, supervisory responsibility was placed in the Farm Credit Administration, an independent agency, and Claude R. Orchard became first director. Subsequently, FCA and the credit union section were moved to the U.S. Department of Agriculture.

By 1942, 4,000 federal credit unions with over one million members had been organized. But credit union leaders had become more and more dissatisfied with what they saw as FCA's indifference. By executive order, the supervision of federal credit unions was moved that year to the Federal Deposit Insurance Corporation.

The first National Credit Union Administration Board members in 1979. Left to right: Harold A. Black, member; Lawrence Connell, chairman; P.A. Mack, Jr., vice chairman.

The move to FDIC coincided with the war years when federal credit unions declined in numbers and in membership. As World War II ended, credit unions became increasingly aware that they were as unwelcome at FDIC as they had been at FCA. They began to work for the transfer of the credit union section to what they believed would be a friendlier host—the Federal Security Administration. In June 1948, a law creating the Bureau of Federal Credit Unions within FSA was signed.

Five years later, Congress moved FSA and the bureau into the new Department

Board members attending the 50th Anniversary Celebration of the Federal Credit Union Act in June 1984. Left to right: P.A. Mack, Jr., vice chairman; Elizabeth F. Burkhart, board member; Edgar F. Callahan, chairman.

of Health, Education, and Welfare (predecessor to the Department of Health and Human Services). It was at this time that the Bureau of Federal Credit Unions became self-sufficient, and began paying its operating costs from credit union fees. Between 1953 and 1970, federal credit unions doubled and membership almost quadrupled.

But by the late 1960s, credit unions were once again expressing dissatisfaction, this time agitating for their own independent federal supervisory agency. In 1970, Congress approved legislation creating NCUA headed by a single administrator and established federal share insurance.

The long evolution culminated in 1978 when Congress replaced the single NCUA administrator with a three-member board. This final step, credit union leaders believed, would provide continuity and ensure that differing points of view would be considered and expressed in open, public session. Today, after 10 years of experience, credit unions seem satisfied with the present structure, if not every decision, of their federal regulator.

Today, after 10 years of experience, credit unions seem satisfied with the present structure...

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Chairman's Statement

Annual reports are meant to cast a reviewing eye over the just-ended year, and this report is no exception. With the space allotted to me, however, I would like to cast an eye forward as we enter the home stretch of the twentieth century.

I am thinking about deregulation and how far we have come with it, as well as how far we still have to go. We tend to take deregulation for granted these days, which is a sign that it is working.

If deregulation is to succeed for the long term, however, regulators must view their jobs as a two-part invention. The first part involves enforcing the many basic regulations that remain in place. Where safety and soundness are concerned, these regulations will remain intact.

I came to NCUA with a motto that has proven, thankfully, to be useful: very simply, we regulate without fear or favor. We enforce the regulations already in effect, and if, after careful study and observation, we believe a new regulation is needed, we write one.

Our mission is safety and soundness. We keep the regulatory burden to a minimum, but we have an insurance fund to protect and we have an obligation to 60 million credit union members. That's the black and white of it, and that's the easy part.

The more difficult, and I believe the more interesting, part of the job involves balancing the human, political side of the credit union world with the deregulated environment we live in these days. As the savings and loan industry painfully discovered, the void that occurs when regulation is lifted is often filled with failure.

Supervision will be the guiding principle of the 1990s.

Thus, the second part of the two-part invention is supervision. By that I mean an agency's ability to guide, advise, and support the institutions in its charge. It sounds easy but it's not, primarily because it's more abstract than regulating. It requires innovation, flexibility, training, and follow-up. It's the opposite of relying on the black and white comfort of regulations.

Our examiner staff must think, analyze, judge, predict, instruct–and succeed. If supervision is inadequate or ineffective, an institution that is already in marginal condition, or one that does not abide by proven principles of safety and soundness, will fail. It's as simple as that, and there are financial institution corpses all over Texas to prove it.

Supervision will be the guiding principle of the 1990s and beyond in all deregulated industries. The promise of deregulation–lower prices, more competition, more opportunity–will prevail only if supervision is an active and permeating feature of regulatory agencies.

Roger W. Jepsen, Chairman

Vice Chairman's Statement

Someone once said, "Of all our human resources, the most precious is the desire to improve."

Because of our "desire to improve," in the last few years we have laid the groundwork for the education and training of our examiner staff with the goal of strengthening their technical and interpersonal skills. What we hoped to accomplish was to have an examiner staff better equipped to examine credit unions and identify emerging problem areas, as well as to relay to credit union management the need to correct operational deficiencies that are identified.

I believe we have succeeded and, in fact, have been so successful that there are those who can't believe that a small agency such as ours could succeed where others have had meager success. Now, because of the problems in the banking and the savings and loan industries, our agency and the credit union community are under intense study.

The General Accounting Office and the Treasury Department are looking at all aspects of our operation with a magnifying glass. This may cause some unease in the credit union community, but the result should be a clear and concise report of the appropriateness of the supervisory activities of NCUA, the strength of the Share Insurance Fund and the condition of credit unions.

...we have taken prudent actions to improve our ability to respond to the changing environment...

From our perspective, we have done what needed to be done. By capitalizing the insurance fund, modernizing our examination procedures and identifying potential risks to the insurance fund, we have taken prudent actions to improve our ability to respond to the changing environment in the financial community.

If the actions we have taken result in criticism, I suggest we heed the counsel of the sage anonymous philosopher who said, "Don't mind criticism. If it is untrue, disregard it. If it is unfair, keep from irritation. If it is ignorant, smile. If it is justified, learn from it."

If we accept the premise that "adversity is the springboard to great achievement," then the 1990s should be a period of great achievement for this agency and the credit unions we supervise.

Elizabeth F. Burkhart

Elizabeth F. Burkhart, Vice Chairman

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Management Report

In 1989, NCUA saw full staffing for the first time in several years, and the agency completed the staff recruiting increase begun in 1987. We continue to recruit highly motivated individuals to fill vacancies created by resignations and retirements. The agency's goal of being fully staffed at all times is being met.

The agency has expended considerable effort to refine and upgrade all technological components. Increased productivity is apparent as examiners and others master the potential of the personal computer and become familiar with the new accounting system and electronic mail.

A number of top management positions changed faces in 1989. Many of these new assignments were implemented to provide cross training to enhance the individual's experience and ability to assume greater responsibilities in the future.

A full-time equal employment manager was hired and placed in the Office of the Executive Director to give the program emphasis.

All senior staff members are encouraged to receive university level management training and enrollees have attended Harvard, State University of Iowa, and George Washington University. A new group was selected for the agency's management development program and training is well under way. During October, all supervisory personnel met in a week-long conference to hone their management skills.

All regions met their goals and objectives, and examiners completed the annual examination of each Federal credit union for the sixth consecutive year.

Donald E. Johnson, Executive Director

The agency's goal of being fully staffed at all times is being met.

The NCUA Board continued to take the agency outside Washington and five official meetings were held in widely dispersed locations.

Public Law 101-73, enacted by Congress in 1989 and signed by the President, provides the agency and credit unions with new challenges and opportunities. The statute gives the agency greater enforcement powers and more responsibility in personnel matters.

Studies by the General Accounting Office and the executive branch included in the legislation will profoundly affect credit unions as these studies are developed, submitted and reviewed by Congress. NCUA will be alert to the ever-changing dynamics of the financial market place and the legislative process in the months ahead.

Economic Report

The U.S. economy grew slowly in 1989. And credit unions did too. The two are not necessarily related, but under certain conditions they can be.

In the economy as a whole, gross national product rose a modest 3.0 percent in 1989. Growth was very strong the first quarter and then deteriorated to 0.9 percent by the fourth quarter. But employment rose nicely, keeping up with the growth in the labor force. The civilian unemployment rate has been at or near 5.3 percent for nearly a year, a rate considered to be full employment, given the structure and makeup of our labor force. Households spent quite freely, with consumption rising 2.7 percent for the year as a whole, although the fourth quarter was 0.4 percent.

Inflation, though up a little, is still in the moderate range, with the consumer price index rising 4.8 percent last year, compared with 4.1 percent in 1988. There is no sign run-away inflation could do serious damage to the economy.

There was a drop in interest rates from March peaks. Three-month Treasury bills declined 119 basis points to 7.63 percent in December; the prime rate fell a percentage point to 10.5 percent, and 30-year Treasury bonds dropped 127 basis points to 7.90 percent by year-end.

With a soft national economy, there was no external stimulus for credit union growth. Assets at federally insured credit unions grew 4.8 percent and savings grew 4.7 percent, the slowest rates since 1981. Loans did better, rising 7.8 percent. While this is well below the 14 percent loan growth of 1988, it is still faster than share and asset growth. Moreover, loan quality is good, with delinquencies at only 1.8 percent.

This slow growth is a turnabout from 1985 and 1986 when shares and assets grew over 20 percent, and loans grew about 15 percent. During that period, credit unions developed a surfeit of liquidity. The slow share and asset growth in 1989, in the face of moderately good loan growth, brought only a slight tightening of liquidity. The average CAMEL liquidity ratio slipped from -1.5 in 1988 to -3.8 in 1989, but this is still a splendid ratio. Under the CAMEL formula, anything less than + or -10 percent is considered healthy.

The loan-to-share ratio is in a good range. In 1989 it stood at 73.3 percent, up from 71.3 percent in 1988. This should help bolster credit union earning margins in the near term, since loans, even after handling costs and losses, exceed investment yields.

Capital ratios at federally insured credit unions were at the highest level in 10 years on Dec. 31, 1989. The year-end ratio of 7.4 percent was more than a full percentage point above the 6.2 percent ratio as recently as 1986. Measured against the new bank risk-based capital standard, the credit union ratio is over 10 percent. This is well above the prescribed standard of 8 percent for banks, for the simple reason that credit unions are not engaged in some of the risky lending and investing activities of banks.

Dr. Charles Bradford, Chief Economist

Yes, credit unions are currently growing very slowly. But the slow growth has not hurt; rather it has probably helped the excellent financial status of credit unions the past year.

Despite slow growth in 1989, NCUA is quite satisfied with the health and stability of credit unions. The relatively few problems are being handled with dispatch. The insurance fund is healthy. Barring a depression or a very unlikely national economic catastrophe, this general health should continue for the foreseeable future.

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Changing Times

Change in credit unions will continue in the 1990s and even accelerate as U.S. credit unions prepare to enter the 21st century.

The 1980s saw the deregulation of credit unions and the recapitalization of their insurance fund, coupled with the strengthening of their supervisory agencies. The 1980s were also characterized by rapid growth of assets, membership, and services. Today, credit unions are more complex, more sophisticated, and more professional than ever before.

Not all credit unions have grown at the same rate and many retain the basic structure of their formative years, but an equal or greater number have experienced a metamorphosis. Technology has played a large role, but the demands and needs of members has forced the transformation.

As new services were added, credit union management emphasized education, skills assessment and career development, team performance, and strategic planning. More complex services and products require a higher level of managerial sophistication.

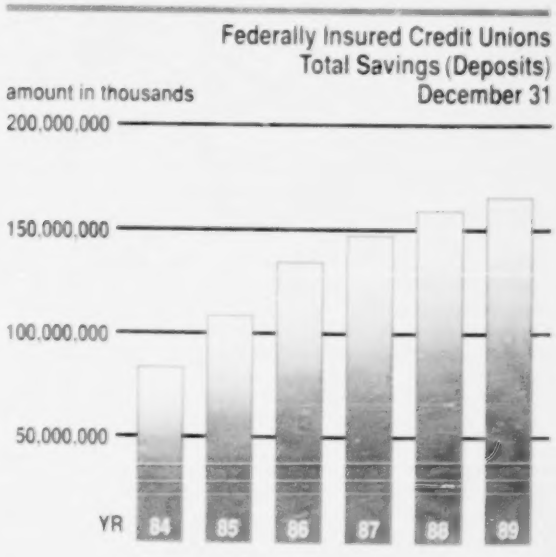
This expansion of services changed the way in which credit union service is extended to unserved groups of people. Chartering of new credit unions declined to only a trickle, and the expansion of services by existing credit unions to new groups took its place. Merging also proved to be an acceptable way to increase services to members.

Deregulation and the demand for new and ever more sophisticated services might have created a turbulent and destructive climate for credit unions, as it did for other financial institutions. That it did not is a tribute to the people who are members and officers of credit unions.

Chartering of new credit unions declined...and the expansion of services...to new groups took its place.

A sense of community is the pervasive common bond which unites the nation's credit unions. That sense of common purpose and devotion to service has been true at all organizational levels. Through negotiation and compromise, decisions have been reached in the 1980s which benefit the whole community.

How will credit unions evolve in the 1990s? They are challenged today as much as they have ever been in the past. The decisions they make in the new decade will determine their role in the 21st century.



Chartering

A document which will guide federal credit union chartering and expansion policy well into the next century was approved by the NCUA Board in 1989 after two years of study.

The new chartering manual seeks to ensure that credit unions will remain as close to members as possible and that new credit unions will have the maximum opportunity for success.

A rule proposed in 1987 was the catalyst for a major reevaluation of the agency's policies. A review of chartering practices showed that chartering varied from region to region. Following a comment period, the NCUA Board delayed action and asked for a comprehensive, in-depth study.

To evaluate current practices, offer revisions, and produce a single document, the Board created a staff working group on chartering issues. The working group met many times over the ensuing months to study the issues, consult examiners and chartering personnel in the regions, and to discuss proposed changes with the credit union community. In June 1988, the working group presented its proposed revisions to the Board and a second public comment period was opened.

In December 1988 after further fine-tuning, the Board approved the policies which became the basis for the chartering manual. The working group prepared its final report and the Board again asked for public comment. In July 1989, it approved the final document.

The new manual states that credit unions chartered at the local level are preferred. If a local credit union is not viable, it should be organized at the next higher level, making every effort to keep the credit union as local as possible. If a group or association asks for a charter which crosses regional lines, it must be approved by a majority of the directors of the affected NCUA regions and the director of the Office of Examination and Insurance.

Charter applicants are required to demonstrate economic feasibility by providing a detailed business plan. The manual states that background and credit checks are required for charter subscribers, prospective officers, and key employees. A minimum of 500 potential members was retained as a guideline if economic feasibility can be demonstrated.

The newly published manual also addresses mergers, conversions to federal charter, and field of membership expansions.

...chartering manual seeks to ensure that credit unions will remain as close to members as possible...

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Safety and Soundness

The capital ratio for federally insured credit unions rose in 1989 and failures remained low, evidence that credit unions remain safe and sound. At mid-year, the capital ratio was 7.1 percent, compared to 6.4 for commercial banks and 2.6 for S&Ls.

During the year, NCUA initiated a number of practices designed to ensure that credit unions will continue to lead the nation as safe and sound financial institutions.

The supervision of troubled credit unions was increased by as much as 150 percent and showed impressive results after one year. Building on the staff development program begun in 1986, NCUA increased its supervision of credit unions with CAMEL code ratings of 4 and 5 by approximately 100,000 hours. Troubled credit unions went from 1,022 with $10.6 billion in assets on Oct. 1, 1988, to 794 with assets of $8.5 billion on Sept. 30, 1989.

The NCUA Board adopted two rules in 1989 aimed at preserving safety and soundness. A redefinition of risk assets for reserving purposes was approved after two years of study by the credit union community. Because of the risk inherent in long-term investments, the rule defines investments with maturities of more than three years as risk assets.

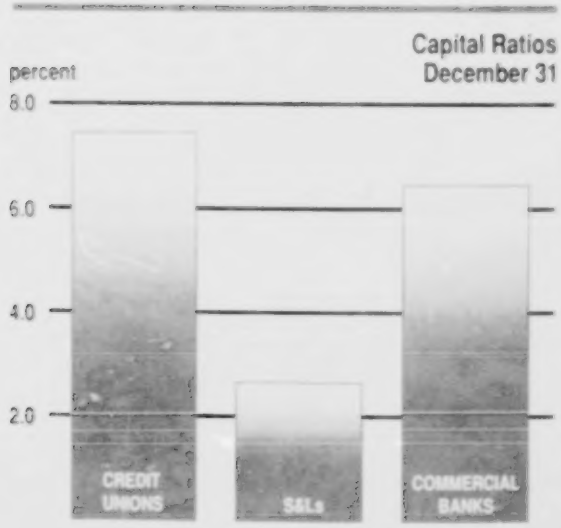
The Board also approved a rule limiting nonmember deposits in low-income credit unions to 20 percent of total shares. Healthy credit unions can accept higher levels of these deposits when they submit an acceptable plan for using the funds.

Since 1986, the NCUA Office of Chief Economist has presented a monthly economic analysis to the Board, and many of its studies are published and made available to credit unions. Using data extracted from semi-annual call reports, these studies provide information and analysis on which to base management decisions.

...credit unions will continue to lead the nation as safe and sound financial institutions.

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 significantly expanded the enforcement powers of U.S. regulatory agencies, including NCUA. The act also required changes in NCUA Rules and Regulations designed to protect safety and soundness. NCUA welcomed this aspect of the legislation. NCUA has a history of responsible and restrained use of its enforcement authorities and is firmly committed to negotiated, mutually-agreed solutions whenever possible.

While 1989 was the year in which the safety and soundness of the nation's financial institutions became the focus of intense public, media, and Congressional attention, NCUA had long pursued that goal. That emphasis will continue.



Accountability

Accountability and quality control are the principles underlying NCUA supervision of credit unions. Every staff member and every division is responsible for high quality performance. Quality people, programs and tools are required to ensure that the examination of federally insured credit unions is professional, thorough, and fair.

Education is basic to professional supervision.

A uniform state/federal approach to the evaluation of credit union performance, risk, and data was the goal of the core examination jointly developed by NCUA and state supervisors. The automation of the core examination was an integral part of this achievement. All corporate credit unions and U.S. Central Credit Union also are examined annually by a specially trained team of state and federal examiners.

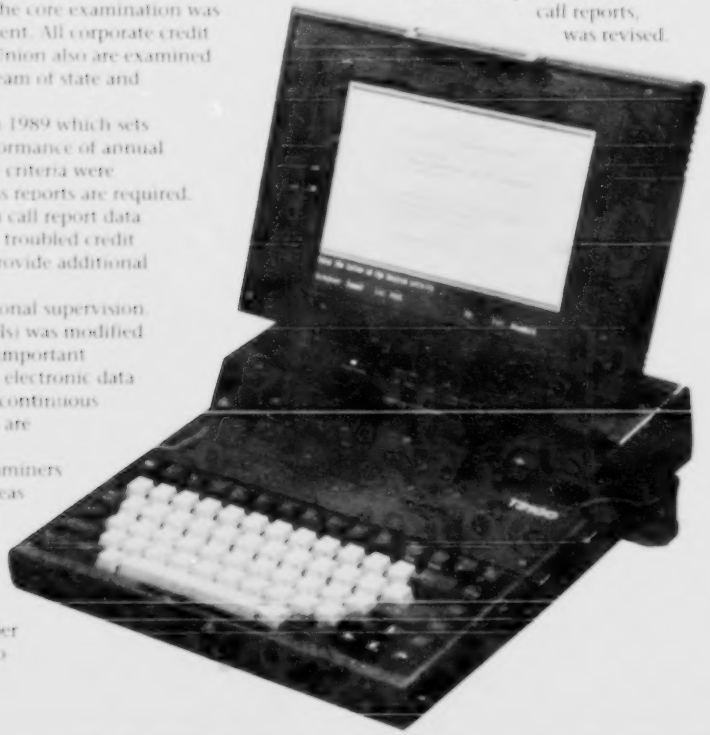
NCUA initiated a program in 1989 which sets minimum standards for the performance of annual examinations. Minimum review criteria were established and monthly progress reports are required. A risk evaluation report based on call report data identifies troubled or potentially troubled credit unions, allowing examiners to provide additional supervision when it is needed.

Education is basic to professional supervision. New examiner training (five levels) was modified and updated in 1989, and some important revisions were made. Training in electronic data processing begins at once and is continuous as new equipment and programs are acquired or developed.

Seminars for experienced examiners were increased to nine subject areas in 1989. A total of 850 state and federal examiners attended one of these seminars or one conducted by the Federal Financial Institutions Examination Council. The number of advanced seminars available to examiners will double in 1990.

The development of a comprehensive, information processing system is a significant factor in NCUA supervision. The system links 1,000 computers via a nationwide communication network that allows file sharing and electronic transmittal of financial data.

NCUA periodically reviews the documents it uses or provides to credit unions. An updated examiner's guide and a new accounting manual were completed in 1989. And the semi-annual financial performance report to individual credit unions, based on the information provided in their call reports, was revised.



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The Future

Credit unions and the National Credit Union Administration came under increasing scrutiny in 1989 as major legislation revising the nation's financial institutions was enacted.

Congress turned down a proposal to restructure the Share Insurance Fund when it approved a bailout of savings and loan institutions—the main focus of consideration. In its place, it instructed the General Accounting Office to conduct a comprehensive, 18-month study of the credit union system.

In addition to the GAO study, the Secretary of the Treasury is conducting another 18-month study of the federal deposit insurance system, also mandated in the legislation. This study will be conducted in consultation with federal financial regulators, including NCUA Chairman Roger Jepsen.

GAO began its study of the credit union system even before the legislation was signed. This included visits to regional offices, U.S. Central and other corporate credit unions, credit union service organizations, and individual credit unions. The amount of information it is accumulating and the broad range of interviews and investigation indicate this will be a thorough and professional study.

NCUA is cooperating fully in the preparation of the two studies. Overlapping in many respects, they have in common the examination of credit union capital, the structure of the Share Insurance Fund, whether the fund should be separated from NCUA, and state regulation of credit unions. These critical examinations of the status of credit unions and the safety of the Share Insurance Fund will continue into 1991. The outcome will affect the long-term future of credit unions.

The timing of the GAO and Treasury studies implies that 1990 will be a quiet legislative year for credit unions. It seems unlikely that Congress will turn major attention to credit unions until these studies are completed.

NCUA is cooperating fully in the preparation of the studies.

There were other indications in 1989 that Congress continues to recognize the public service credit unions provide. Legislation authorizing assistance to the new governments of Poland and Hungary singled out credit unions as a means for developing needed financial services in those countries. It also permits NCUA to provide technical assistance on supervisory and regulatory matters to these countries.

Share Insurance Fund

The National Credit Union Share Insurance Fund ended fiscal year 1989 healthier than ever before. Total assets passed the $2 billion mark, and the NCUA Board waived the 1990 insurance premium for the sixth consecutive year.

Although it suffered its largest single insurance loss in history, the fund's equity ratio on September 30 was 1.25 percent, up from 1.24 on the same day in 1988. After adjustments to reserves, the fund had $1.25 in reserves for every $100 of insured shares, and the equity ratio is expected to be near its cap of 1.3 percent by the end of the 1990 insurance year on June 30.

Total revenue increased 17 percent in 1989 to a record $148.8 million, while operating costs grew by 16 percent to $30.8 million. Expenses included the cost of operating the Asset Liquidation Management Center and of providing training for state examiners. The fund received an unqualified audit opinion from its independent auditors for the fifth consecutive year.

Insurance losses in 1989 were $93.6 million compared to $60.1 in 1988, with the loss at Franklin Community Federal Credit Union, Omaha, totaling almost $40 million. As a result, insurance losses per $1,000 of insured shares reached 58 cents for the year, compared to 38 cents for 1988.

At September 30, NCUSIF insured 8,914 federal credit unions and 4,634 state credit unions, with insured shares totaling $163 billion. During the year, 520 mergers and liquidations took place, 64 less than in the previous fiscal year.

Because the insurance year which ended June 30 was a relatively slow growth year for credit unions, many received deposit refunds for the first time. About 6,300 credit unions received a total refund of $31 million, and the remaining 7,600 increased their capitalization deposits by $81 million.

Since the recapitalization of the Share Insurance Fund in 1984, the fund has maintained its equity level between 1.25 and 1.30 percent, and has paid all operating costs and insurance losses from earnings on its investments. Consequently, the NCUA Board waived an insurance assessment of $135 million for 1990, the sixth year it has done so.

...National Credit Union Share Insurance Fund ended fiscal year 1989 healthier than ever...

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Central Liquidity Facility

Formation of the National Credit Union Administration Central Liquidity Facility culminated four decades of legislative effort to establish a federal funds system to serve the liquidity needs of credit unions.

A mixed ownership government corporation governed by the NCUA Board, CLF is a central source of short-term funds for the credit union system. At the end of the fiscal year, September 30, it had a loan portfolio of $112.2 million, $8.2 million less than the amount of $120.4 million on the same day in 1988. It also had $13.5 million in lines of credit to four private share insurance funds.

Although all of its funds come from its member credit unions, CLF's operating budget must be approved by Congress. During 1989, it had expenses of $812,372, less than the approved budget of $880,000.

...CLF is a central source of short-term funds for credit unions...

A reserve target of $680,000 set by the NCUA Board was exceeded, reaching $679,220 by year end. Member equity was $438.9 million, compared with $408.4 million the previous year.

To become a member of CLF, a credit union or its designated agent purchases shares of stock equal to one-half of one percent of the credit union's unimpaired capital and surplus. There are 15,000 member credit unions represented by 42 agents and another 218 individual member credit unions.

Dividends of $45.2 million, 98 percent of net earnings, were paid to member credit unions in 1989 i.e., an 8.3 percent return on members' capital and deposits. The investment liquidity portfolio, made up of low yielding, long-term securities from credit unions earned current market rates.

CLF investments–U.S. Government and agency obligations, deposits in federally insured institutions and shares of deposits in credit unions–had an average maturity of 74 days. The average yield on investments was 8.5 percent in 1989 compared to 8.4 percent for 90-day U.S. Treasury bills.

Financial Highlights
September 30

	1989
OPERATING RESULTS	
Operating Net Income	38,300,000
Dividends	34,651,000
Net Earnings and Additions to Reserves	679,000
AT FISCAL YEAR END	
Total Assets	565,637,000
Total Member Shares and Retained Earnings	438,908,000
Total Loans	112,172,000
Total Employees	4
Total Members via Agents (credit unions)	42/15,000
Direct Members	218

Financial Results

The financial condition of NCUA remained strong during fiscal year 1989. The cost of operations was well within budget, revenue exceeded projections by a small margin, and the reserves of the Operating Fund continued to grow.

The accompanying financial statements summarize the financial position of the Operating Fund, disclose the full cost of the operations charged to the Operating Fund during fiscal years 1988 and 1989, and present all significant sources and uses of resources during the two fiscal years. An outside auditor once again rendered an unqualified opinion.

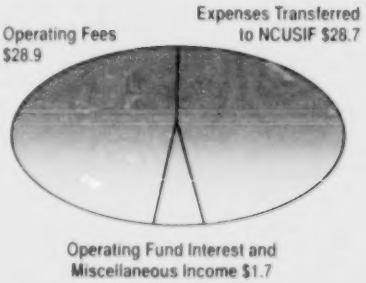
Actual expenses for fiscal year 1989 were $57.5 million, 3.9 percent under the budget of $59.9 million. The largest savings occurred in employee wages–888 actual full-time equivalent staff members versus 906 budgeted–primarily due to turnover and normal time lapses in filling vacancies. In addition, travel expenses were significantly below budget, mainly due to rearranged training travel.

The cost of NCUA operations is shared by the National Credit Union Share Insurance Fund and NCUA's Operating Fund. Expenses are divided each month through an accounting procedure known as the overhead transfer. The rate used is based on an annual study of staff time and currently is 50 percent.

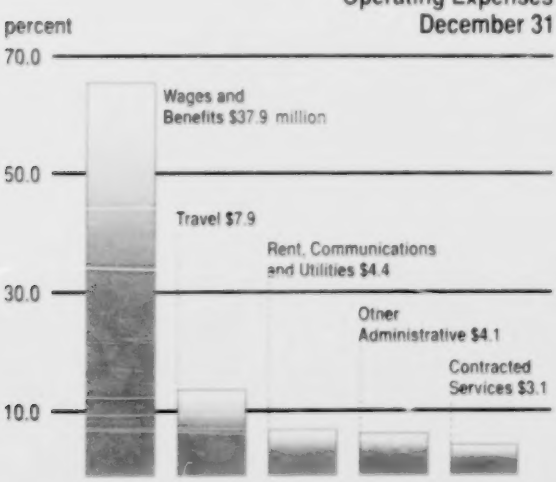
Revenue to fund the cost of operations comes primarily from earnings on Share Insurance Fund investments and annual operating fees collected from federal credit unions. In addition, the Operating Fund receives lesser amounts of income from overnight investments of idle cash and miscellaneous income from sources such as the sale of publications.

The Operating Fund's total revenue of $30.6 million during fiscal year 1989 was above original budget projections by about $440,000 or 1.5 percent. This additional revenue combined with below budget expenses resulted in an excess of revenue over expenses of $1.8 million (net income) and an increase in the fund equity balance to almost $5.7 million.

FY '89 Funding Sources (in millions)



Operating Expenses December 31



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Auditor's Report

Operating Fund Report and Financial Statements
for the Years Ended September 30, 1989 and 1988

Report of Independent Accountants

Price Waterhouse

To the Board of the National Credit Union Administration

In our opinion, the statements appearing on pages 18 through 22 of this report present fairly, in all material respects, the financial position of the National Credit Union Administration-Operating Fund at September 30, 1989 and 1988 and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles. These financial statements are the responsibility of the National Credit Union Administration's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse

Washington, D.C.

November 15, 1989

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Operating Fund Balance Sheets

	Year Ended September 30, 1989	1988
ASSETS		
Cash, including cash equivalents of $7,053,043 and $4,460,000 (Note B)	$ 7,053,043	$ 4,474,586
Due from National Credit Union Share Insurance Fund (Note C)	191,721	711,822
Employee advances	392,387	620,659
Other accounts receivable	254,024	168,338
Prepaid expenses	247,045	218,871
Land and office building, net of accumulated depreciation of $63,281 and $21,093	2,194,671	2,232,431
Furniture and equipment, net of accumulated depreciation of $3,190,760 and $3,622,181	4,504,087	4,982,666
Leasehold improvements, net of accumulated amortization of $97,730 and $67,458	374,564	407,967
Total assets	**$15,211,542**	**$13,817,340**
LIABILITIES AND FUND BALANCE		
Accounts payable	$ 1,495,530	$ 2,604,417
Accrued wages and benefits	2,218,144	1,968,637
Accrued annual leave	2,909,260	2,584,869
Accrued employee travel	860,924	675,015
Note payable to National Credit Union Share Insurance Fund (Note C)	2,052,766	2,124,766
Total liabilities	**9,536,624**	**9,957,704**
Fund Balance:		
Available for operations	654,362	(1,343,172)
Invested in fixed assets, net	5,020,556	5,202,808
Total fund balance	**$ 5,674,918**	**$ 3,859,636**
Commitments (Note D)		
Total liabilities and fund balance	**$15,211,542**	**$13,817,340**

The accompanying notes are an integral part of these financial statements.

Operating Fund Statements of Revenue, Expenses and Changes in Fund Balance

	Year Ended September 30, 1989	1988
REVENUE		
Operating fee revenue	$ 28,925,893	$ 25,342,427
Investment income	1,291,900	845,761
Miscellaneous income	366,076	180,358
Total revenue	**$30,583,869**	**$26,368,546**
EXPENSES (NOTE C)		
Employee wages and benefits	18,973,325	16,743,207
Travel expense	3,977,074	3,906,335
Rent, communications, and utilities	2,197,839	2,254,111
Contracted services	1,552,305	1,366,272
Other administrative	2,068,044	2,235,771
Total administrative expenses	**$28,768,587**	**$26,505,696**
Excess of revenue (expenses)	1,815,282	(137,150)
Fund balance at beginning of year	3,859,636	3,996,786
Fund balance at end of year	$ 5,674,918	$ 3,859,636

The accompanying notes are an integral part of these financial statements.

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Operating Fund Statements of Cash Flows

	Year Ended September 30, 1989	1988
Cash flows from operating activities:		
Excess of revenue (expenses)	$ 1,815,282	$ (137,150)
Adjustments to reconcile excess of (expenses) revenue to net cash provided by operating activities:		
Depreciation and amortization	1,498,041	1,429,689
Gain on disposition of fixed assets	(4,361)	(16,974)
Changes in operating assets and liabilities:		
Decrease in amounts due from National Credit Union Share Insurance Fund	520,101	1,767,077
Decrease (increase) in employee advances	228,272	(45,000)
Increase in other accounts receivable	(85,686)	(78,661)
Increase in prepaid expenses	(28,174)	(89,074)
Decrease in accounts payable	(1,108,887)	(479,179)
Increase in accrued wages and benefits	249,507	504,823
Increase in accrued annual leave	324,391	346,709
Increase (decrease) in accrued employee travel	185,909	(289,025)
Net cash provided by operating activities	3,594,395	2,913,235
Cash flows from investing activities:		
Purchases of fixed assets	(949,778)	(3,820,632)
Proceeds from sale of fixed assets	5,840	18,005
Net cash used by investing activities	(943,938)	(3,802,627)
Cash flows from financing activities:		
Proceeds from issuance of note payable		2,160,766
Repayments of note payable	(72,000)	(36,000)
Net cash (used) provided by financing activities	(72,000)	2,124,766
Net increase in cash and cash equivalents	2,578,457	1,235,374
Cash and cash equivalents at beginning of year	4,474,586	3,239,212
Cash and cash equivalents at end of year	**$7,053,043**	**$4,474,586**
Composed of:		
Cash		$ 14,586
Cash equivalents - U.S. Government securities with maturities less than 3 months	7,053,043	4,460,000
Total	**$7,053,043**	**$4,474,586**

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements
September 30, 1989

Note A • Organization and Purpose

The National Credit Union Administration-Operation Fund (the Fund) was created by the Federal Credit Union Act of 1934. The Fund was established as a revolving fund in the United States Treasury under the management of the National Credit Union Administration Board for the purpose of providing administration and service to the Federal Credit Union System.

Note B • Significant Accounting Policies

Cash Equivalents

The Federal Credit Union Act permits the Fund to make investments in United States Government securities or securities guaranteed as to both principal and interest by the United States Government. All investments in fiscal years 1989 and 1988 were cash equivalents and are stated at cost which approximates market. Cash equivalents are highly liquid investments with original maturities of three months or less.

Depreciation and Amortization

Building, furniture and equipment and leasehold improvements are recorded at cost. Depreciation and amortization are computed by the straight-line method over the estimated useful lives of the building, furniture and equipment and the shorter of the estimated useful life or lease term for leasehold improvements. Estimated useful lives are forty years for the building and three to ten years for the furniture and equipment and leasehold improvements.

Operating Fee Revenue

The Fund assesses each federally chartered credit union an annual fee based on the credit union's asset base as of the preceding June 30. The fee is designed to cover the costs of providing administration and service to the Federal Credit union System. The Fund recognizes operating fee revenue on a fiscal year basis.

Income Taxes

The Fund is exempt from Federal income taxes under §501(c)(1) of the Internal Revenue Code.

Note C • Transactions With The National Credit Union Share Insurance Fund (NCUSIF)

Certain administrative services are provided by the Fund to NCUSIF. The Fund charges NCUSIF for these services based upon an annual allocation factor approved by the NCUA Board derived from an estimate of actual usage. The allocation factor was 80% to NCUSIF and the Fund in the years ended September 30, 1989 and 1988. The cost of the services allocated to NCUSIF, which totaled approximately $28,769,000 and $26,506,000 for the years ended September 30, 1989 and 1988, respectively, are reflected as a reduction of the corresponding expenses in the accompanying financial statements.

In fiscal year 1988, the Fund entered into a $2,160,766 thirty year term note with NCUSIF, for the purchase of a building. The note is being repaid in monthly principal installments of $6,000 with interest at a variable rate. The average interest rate during fiscal year 1989 was approximately 8.1%. The outstanding principal balance at September 30, 1989 was $2,052,766. The total interest paid in fiscal years 1989 and 1988 was $184,275 and $80,507.

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Note D • Commitments

The Fund leases certain office space under lease agreements which expire through 1998. Office rental charges for the years ended September 30, 1989 and 1988 amounted to approximately $2,279,000 and $2,274,000 of which approximately $1,140,000 and $1,137,000 was reimbursed by NCUSIF. In addition, the Fund leases certain office equipment under operating leases with lease terms less than one year.

The future minimum lease payments as of September 30, 1989, are as follows:

1990	$ 2,041,620
1991	1,998,000
1992	1,847,000
1993	1,685,000
1994	1,625,000
Thereafter	1,449,000
	$10,645,000

Based on the allocation factor approved by the NCUA Board for fiscal year 1990, NCUSIF will reimburse the Fund for approximately 50% of the future lease payments.

Note E • Retirement Plan

The employees of the Fund are participants in the Civil Service Retirement and Disability Fund (CSRDF) which includes the federal Employees' Retirement System (FERS). Both plans are defined benefit retirement plans covering all of the employees of the Fund. FERS is comprised of a Social Security Benefits Plan, a Basic Benefits Plan and a Savings Plan. Contributions to the plans are based on a percentage of employees' gross pay. Under the Savings Plans employees can also elect additional contributions between 1% and 10% of their gross pay and the Fund will match up to 5% of the employees' gross pay. The Fund's contributions to the plans for the years ended September 30, 1989 and 1988 were approximately $3,145,000 and $2,602,000 of which $1,572,500 and $1,301,000 was reimbursed by NCUSIF, respectively.

The Fund does not account for the assets for the above plans and does not have actuarial data with respect to accumulated plan benefits or the unfunded liability relative to eligible employees. These amounts are reported by the U.S. Office of Personnel Management for the Civil Service Retirement and Disability Fund and are not allocated to individual employers.

Financial Data

Federal Credit Unions 24-36
State Credit Unions 37
Corporate Credit Unions 38-39

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Consolidated Balance Sheet

December 31 (In thousands)

	1988	1989	Percentage change
ASSETS			
Cash	$ 2,447,184	$ 2,750,344	12.4
Loans outstanding	75,799,200	80,272,306	5.9
Allowance for loan losses	542,150	642,603	18.6
U.S. Gov't/Fed Agency Securities	10,963,479	9,874,616	-9.9
Commercial banks	3,394,202	5,786,794	70.5
S&Ls and mutual savings banks	9,743,957	7,110,969	-27.0
Corporate credit unions	6,796,380	9,341,715	37.4
Mutual funds	948,677	799,917	-15.7
NCUSIF capitalization deposit	948,154	1,000,429	5.5
Other investments	2,815,506	760,149	-73.0
Total investments	$ 35,612,505	$ 34,674,651	-2.6
Allowance for investment losses	(58,481)	(38,166)	-34.7
Land and building, net of depreciation	1,435,367	1,600,562	11.5
Other fixed assets	638,446	662,123	3.7
Other assets	1,269,227	1,387,196	9.3
Total assets	$114,564,579	$120,666,414	5.3
LIABILITIES			
Notes payable	1,336,476	891,362	-14.3
Dividends payable	669,363	714,356	6.7
Accounts payable and other liabilities	441,128	646,113	0.8
Total liabilities	$ 2,350,400	$ 2,251,839	-4.2
EQUITY SAVINGS			
Regular shares	52,167,852	48,745,471	-6.6
Share certificates	18,503,287	24,300,406	31.3
IRA/Keogh accounts	14,875,309	15,981,573	7.4
Share drafts	10,134,353	10,940,973	8.0
All other shares	8,751,396	9,683,677	10.7
Total savings	$104,431,487	$109,652,600	5.0
Regular reserves	3,162,911	3,537,795	11.9
Other reserves	1,053,106	1,152,691	9.5
Undivided earnings	3,566,674	4,071,548	14.2
Total equity savings	$112,214,178	$118,414,574	5.5
Total liabilities equity	$114,564,579	$120,666,414	5.3

Consolidated Income and Expense Statement

December 31 (In thousands)

	1988	1989	Percentage change
INCOME			
Interest on loans	$ 7,782,350	$ 8,834,735	13.5
Less: Interest refund	(13,341)	(12,874)	-3.5
Income from investments	2,946,387	2,936,083	3.2
Other operating income	557,981	662,260	18.7
Total gross income	$11,173,377	$12,420,204	11.2
EXPENSES			
Employee compensation and benefits	1,650,378	1,821,906	10.4
Travel and conference expenses	59,219	63,360	7.0
Office occupancy	202,116	231,283	14.4
Office operations expense	755,483	831,786	10.1
Educational and promotional	90,736	97,161	7.1
Loan servicing expense	102,948	118,494	15.1
Professional and outside services	274,585	303,743	10.6
Provision for loan losses	488,601	588,914	20.5
Provision for investment losses	12,631	605	-95.2
Member insurance	147,890	147,435	-0.3
Operating fees	26,461	29,917	13.0
Miscellaneous operating expenses	120,289	129,003	7.2
Total operating expenses	$ 3,931,342	$ 4,363,607	11.0
NON OPERATING GAINS OR LOSSES			
Gain (loss) on investments	2,471	(2,557)	-203.4
Gain (loss) on disposition of assets	4,485	8,338	85.9
Other non operating income (expense)	7,416	8,221	16.1
Total income (loss) before cost of funds	$ 7,256,409	$ 8,068,597	11.2
COST OF FUNDS			
Interest on borrowed money	77,065	113,162	46.9
Dividends	6,148,090	6,909,709	12.4
Net transfer to statutory reserves	$ 232,238	$ 264,929	14.1
Net income (loss) after costs of funds and net reserve transfers	$ 799,016	$ 780,778	-2.3

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Federal Credit Unions by State

December 31

	Number FCUs 1989	Assets (in millions) 1989	Assets (in millions) 1988	Percent change 1988 to 1989
Alabama	136	$1,723	$1,781	3.3
Alaska	16	1,248	1,196	4.3
Arizona	49	1,708	1,617	5.6
Arkansas	83	464	419	10.7
California	684	19,616	18,630	5.3
Colorado	124	1,828	1,774	3.0
Connecticut	205	2,310	2,309	0.0
Delaware	56	462	443	4.3
District of Columbia	107	2,086	1,870	11.6
Florida	216	6,596	6,471	1.9
Georgia	209	1,927	1,836	5.0
Guam	3	64	55	16.4
Hawaii	130	2,367	2,199	7.6
Idaho	48	514	497	3.4
Illinois	253	1,903	1,841	3.4
Indiana	289	4,103	3,912	4.9
Iowa	7	40	36	11.1
Kansas	42	351	320	9.7
Kentucky	114	994	952	4.4
Louisiana	287	1,710	1,643	4.1
Maine	102	1,224	1,172	4.4
Maryland	164	3,033	2,832	7.1
Massachusetts	244	3,811	3,572	6.7
Michigan	220	4,007	3,881	3.2
Minnesota	82	1,641	1,499	9.5
Mississippi	121	641	614	4.4
Missouri	23	160	157	1.9

Number of Federal Credit Unions by Asset Size

December 31

Asset size	Number of FCUs	Percentage of total	Cumulative percentage
Less than $50 thousand	147	1.1	1.1
$50 to $100 thousand	185	2.1	3.8
$100 to $250 thousand	620	7.1	10.8
$250 to $500 thousand	796	8.7	19.5
$500 thousand to $1 million	1,102	12.5	32.0
$1 million to $2 million	1,257	14.3	46.3
$2 million to $5 million	1,685	19.1	65.4
$5 million to $10 million	1,105	12.5	77.9
$10 million to $20 million	783	8.9	86.8
$20 million to $50 million	462	7.7	94.5
$50 million to $100 million	253	2.9	97.4
$100 million and over	233	2.6	100.0
Total	8,821		

Federal Credit Unions by State

December 31 (continued)

	Number FCUs 1989	Assets (in millions) 1989	Assets (in millions) 1988	Percent change 1988 to 1989
Montana	84	$ 534	$ 539	0.9
Nebraska	70	593	575	3.1
Nevada	30	912	860	6.0
New Hampshire	18	527	527	0.0
New Jersey	412	3,282	3,226	1.7
New Mexico	39	903	836	8.0
New York	833	9,609	9,114	5.4
North Carolina	96	1,604	1,454	10.3
North Dakota	25	84	85	-1.2
Ohio	478	3,024	2,947	2.6
Oklahoma	83	976	957	2.0
Oregon	128	1,332	1,281	4.0
Pennsylvania	466	5,766	5,525	4.4
Puerto Rico	32	174	172	1.2
Rhode Island	13	17	17	0.0
South Carolina	100	1,734	1,535	13.0
South Dakota	73	364	339	7.4
Tennessee	130	1,867	1,786	4.5
Texas	604	9,149	8,125	12.6
Utah	52	390	365	6.8
Vermont	8	127	116	9.5
Virgin Islands	5	12	9	33.3
Virginia	219	8,136	7,742	5.1
Washington	112	1,854	1,792	3.5
West Virginia	145	741	706	5.0
Wisconsin	3	157	144	9.0
Wyoming	39	270	265	1.9
Total	8,821	$120,669	$114,567	5.3

Note: Differences in assets from other tables due to rounding.

Federal Credit Unions by Asset Size

December 31

Asset size	Assets (in thousands)	Percentage of total	Cumulative percentage
Less than $50 thousand	$ 4,343	0.0	0.0
$50 to $100 thousand	14,024	0.0	0.0
$100 to $250 thousand	109,593	0.1	0.1
$250 to $500 thousand	280,462	0.2	0.3
$500 thousand to $1 million	807,918	0.7	1.0
$1 million to $2 million	1,834,455	1.5	2.5
$2 million to $5 million	5,506,552	4.6	7.1
$5 million to $10 million	7,772,910	6.4	13.5
$10 million to $20 million	11,116,676	9.2	22.7
$20 million to $50 million	21,231,497	17.6	40.3
$50 million to $100 million	17,891,098	14.8	55.2
$100 million and over	54,096,887	44.8	100.0
Total	$120,666,415		

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Loans Outstanding
December 31 (In millions)

	1985	1986	1987	1988	1989
Loans outstanding	$48,241	$55,305	$64,104	$73,766	$80,272
Allowance for loan losses	354	415	466	542	643
Regular reserves	2,132	2,417	2,764	3,163	3,538
Amount of delinquent loans	1,006	1,172	1,219	1,326	1,418
Loans charged off	253	381	448	522	612
Recoveries on loans	46	53	64	81	86
Provision for loan losses	249	358	418	469	589
SIGNIFICANT RATIOS (as a percentage of loans outstanding)					
Allowance for loan losses	0.73	0.75	0.73	0.73	0.80
Regular reserves	4.42	4.37	4.31	4.29	4.41
Delinquent loans	2.09	2.12	1.90	1.80	1.77
Loans charged off	0.52	0.69	0.70	0.71	0.76
Net loans charged off	0.43	0.59	0.60	0.60	0.66
Provision for loan losses	0.52	0.64	0.65	0.66	0.73

Percentage Distribution of Savings by Type of Account
December 31 (In millions)

Type of account	1985	1986	1987	1988	1989
Regular shares	69.3	71.6	71.2	66.1	63.2
Share drafts	9.5	9.7	10.0	9.7	10.0
Other regular shares	59.8	61.9	61.2	56.4	53.2
Share certificates	30.7	28.4	28.8	33.9	36.8
IRA and Keogh	11.7	13.4	14.2	14.2	14.6
Other certificates	19.0	15.0	14.6	17.7	22.2
Total savings	$71,616	$87,954	$96,346	$104,431	$109,653

Annual Growth Rates in Reserves and Undivided Earnings

	1982	1983	1984	1985	1986	1987	1988	1989
Total reserves	14.7	13.7	23.0	22.4	18.0	16.5	15.3	12.6
Regular reserve	9.6	12.4	20.9	19.3	13.4	14.4	14.4	11.9
Other reserves	10.2	15.6	25.7	13.3	21.6	7.5	9.5	9.5
Undivided earnings	23.4	14.6	24.4	29.6	21.4	20.6	18.0	14.2

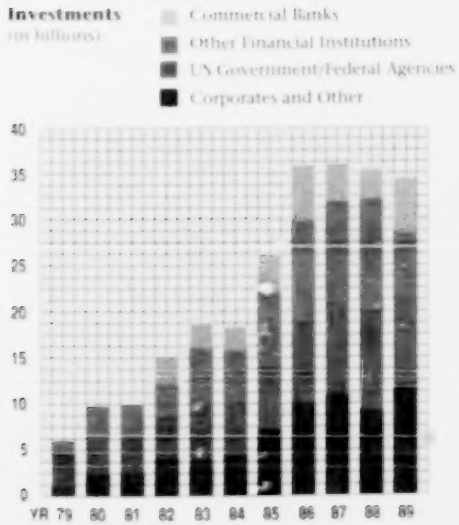
Total Investments 1985 to 1989

December 31 (In millions)

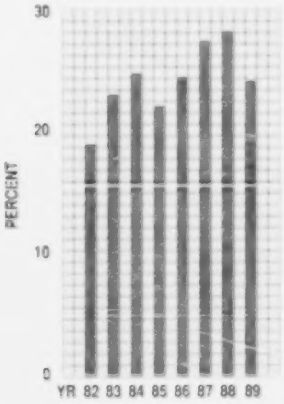
	1985	1986	1987	1988	1989
U.S. government obligations	$ 2,409	$ 3,518	$ 4,439	$ 4,123	$ 3,138
Federal agency securities	4,548	5,270	5,979	6,840	6,737
Mutual funds	640	1,801	1,193	949	800
Deposits in commercial banks	4,146	5,757	4,134	3,394	5,787
Deposits in S&Ls and savings banks	8,113	10,700	10,840	9,744	7,111
Shares/deposits in corporate CUs	5,079	7,136	6,286	6,798	9,342
NCUSIF capitalization deposits	602	709	815	948	1,000
Investments in other CUs	126	165	189	267	225
Other investments[1]	594	653	2,435	2,549	535
Allowance for investment losses	(17)	(21)	(58)	(54)	(38)
Total investments	**$26,240**	**$35,688**	**$36,253**	**$35,554**	**$34,636**
PERCENTAGE BREAKDOWN PER YEAR					
U.S. government obligations	9.2	9.9	12.2	11.6	9.1
Federal agency securities	17.3	14.8	16.5	19.2	19.5
Mutual funds	2.4	5.0	3.3	2.7	2.3
Deposits in commercial banks	15.8	16.1	11.4	9.5	16.7
Deposits in S&Ls and savings banks	30.9	30.0	29.9	27.4	20.5
Shares/deposits in corporate CUs	19.4	20.0	17.3	19.1	27.0
Share insurance/other capital deposits	2.3	2.0	2.2	2.7	2.9
Investments in other CUs	0.5	0.5	0.5	0.8	0.6
Other investments[1]	2.3	1.8	6.7	7.2	1.5

[illegible] loans to other credit unions, shares in the Central Liquidity Facility and other investments.
1987 and 1988 figures include all federal funds.

Investments
(in billions)



Long Term Investments as a Percentage of Total Investments



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Federal Credit Unions Experiencing Losses

December 31

Year	Number of Federal Credit Unions	Number experiencing losses	Percentage of total	Negative earnings (in thousands)
1981	11,969	2,561	21.4	$ 82,735
1982	11,631	2,572	22.1	63,098
1983	10,963	2,443	22.3	45,434
1984	10,547	1,041	9.9	18,555
1985	10,125	1,178	11.6	31,604
1986	9,758	1,360	13.9	43,805
1987	9,401	1,481	15.8	71,410
1988	9,118	1,074	11.8	78,212
1989	8,821	1,008	11.4	$126,383

CAMEL Rating System

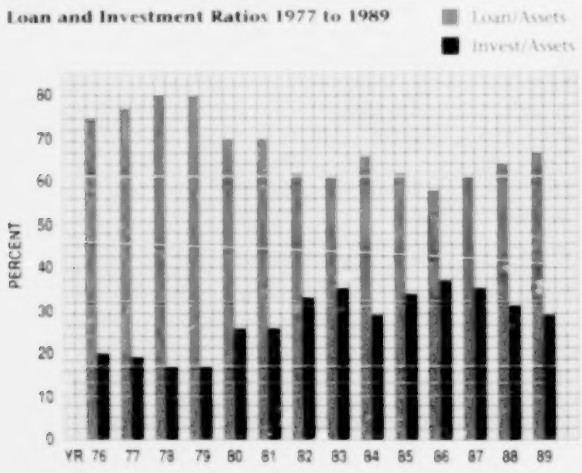
December 31, Number by Categories

EWS/CAMEL category	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Change
Codes 1 and 2	7,862	7,237	7,093	7,365	7,425	7,250	6,536	5,800	5,649	5,551	-98
Code 3	3,770	3,737	3,751	2,855	2,623	2,460	2,734	3,063	2,919	2,857	-62
Code 4	585	720	661	646	451	375	440	486	480	386	-94
Code 5	223	175	126	97	48	40	48	52	70	27	-43
Total	12,440	11,869	11,631	10,963	10,547	10,125	9,758	9,401	9,118	8,821	-297

CAMEL implemented in 1981

EWS Early Warning System; Code 1 implemented during 1985

Loan and Investment Ratios 1977 to 1989



Federal Credit Unions Experiencing Losses by Asset Size

December 31

Asset size	Number of FCUs	Assets	1989 losses	Reserves and undivided earnings
Less than $1 million	377	$ 161,624,132	$ 2,956,775	$ 14,647,392
$1 million to $2 million	143	204,225,233	2,713,360	13,627,021
$2 million to $5 million	170	556,636,299	6,743,867	31,368,833
$5 million to $10 million	138	953,143,685	10,194,878	49,841,141
$10 million to $20 million	66	969,822,576	8,874,880	42,938,649
$20 million to $50 million	76	2,248,944,525	19,060,935	96,527,017
$50 million and over	38	5,469,371,272	75,831,932	194,898,534
Total	1,008	$10,563,767,722	$126,382,627	$443,848,587

CAMEL Codes 4 and 5 Distribution by Asset Size

December 31

Asset size	Number of CUs	Total assets (in thousands)
Less than $1 million	171	$ 56,736
$1 million to $10 million	156	602,205
$10 million to $20 million	32	441,933
$20 million to $50 million	32	943,417
$50 million to $100 million	11	766,642
Greater than $100 million	11	3,013,955
Total	413	$5,824,888

Index of Loan and Share Growth

(Index: December 1980=100%)

Member Savings
Loans Outstanding
PERCENT
300
200
100
YR Jun 81 Dec Jun 82 Dec Jun 83 Dec Jun 84 Dec Jun 85 Dec Jun 86 Dec Jun 87 Dec Jun 88 Dec Jun 89 Dec

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32

Selected Data for Federal Credit Unions

December 31, 1934 to 1989

Year	Charters Issued	Charters Canceled	Net Change	Total Outstanding	Inactive Credit Unions	Active Credit Unions	Members	(amounts in thousands of dollars) Assets	Shares	Loans Outstanding
1934	78		78	78	39	39	3,240	$ 23	$ 23	$ 15
1935	828		828	906	134	772	119,420	2,372	2,228	1,834
1936	496	4	492	1,398	107	1,291	209,700	9,158	8,511	7,344
1937	638	69	569	2,427	114	2,313	483,920	19,265	17,650	15,695
1938	515	83	432	2,859	99	2,760	632,050	29,629	26,876	23,830
1939	529	93	436	3,295	113	3,182	850,770	47,811	43,327	37,673
1940	666	76	590	3,885	129	3,756	1,127,940	72,530	65,806	55,818
1941	583	89	494	4,379	151	4,228	1,408,660	106,052	97,209	69,485
1942	187	60	98	4,477	332	4,145	1,356,940	119,591	109,622	43,053
1943	108	321	213	4,264	326	3,938	1,311,620	127,329	117,339	35,376
1944	49	265	216	4,048	233	3,815	1,306,000	144,365	133,677	34,438
1945	96	185	89	3,959	202	3,757	1,216,625	153,103	140,614	35,155
1946	157	151	6	3,965	204	3,761	1,302,132	173,166	159,718	56,801
1947	207	159	48	4,013	168	3,845	1,445,915	210,376	192,410	91,372
1948	341	130	211	4,224	166	4,058	1,628,339	258,412	235,008	137,642
1949	523	101	422	4,646	151	4,495	1,819,606	316,363	285,001	186,216
1950	565	83	482	5,128	144	4,984	2,126,823	405,835	361,925	263,736
1951	533	75	458	5,586	188	5,398	2,463,668	504,715	457,402	299,756
1952	692	115	577	6,163	238	5,925	2,853,241	662,409	597,374	415,062
1953	825	132	693	6,856	278	6,578	3,255,422	854,232	767,571	573,974
1954	852	122	730	7,586	359	7,227	3,598,790	1,033,179	931,407	681,970
1955	777	185	592	8,175	369	7,806	4,032,220	1,267,427	1,135,165	863,042
1956	741	160	581	8,734	384	8,350	4,502,210	1,509,202	1,366,256	1,049,189
1957	662	194	468	9,202	467	8,735	4,897,689	1,786,768	1,589,191	1,257,319
1958	686	265	331	9,533	503	9,030	5,209,912	2,034,866	1,812,017	1,379,724
1959	700	270	430	9,963	516	9,447	5,643,248	2,352,813	2,075,055	1,666,506
1960	685	274	411	10,374	469	9,905	6,087,378	2,669,754	2,344,337	2,021,463
1961	671	265	406	10,780	509	10,271	6,542,603	3,028,294	2,673,488	2,245,223
1962	601	264	337	11,117	485	10,632	7,007,630	3,439,805	3,020,274	2,560,722
1963	622	312	310	11,427	452	10,975	7,499,747	3,916,541	3,452,615	2,911,159
1964	580	323	257	11,684	366	11,278	8,092,030	4,559,438	4,017,393	3,349,068
1965	584	270	324	11,978	435	11,543	8,640,560	5,165,807	4,538,461	3,864,809
1966	701	318	383	12,361	420	11,941	9,271,967	5,668,941	4,944,033	4,323,943
1967	636	292	344	12,705	495	12,210	9,873,777	6,206,156	5,420,633	4,677,480
1968	662	345	317	13,022	438	12,584	10,508,504	6,902,175	5,988,181	5,398,052

[1] Data for 1934 to 1936 are partly estimated.

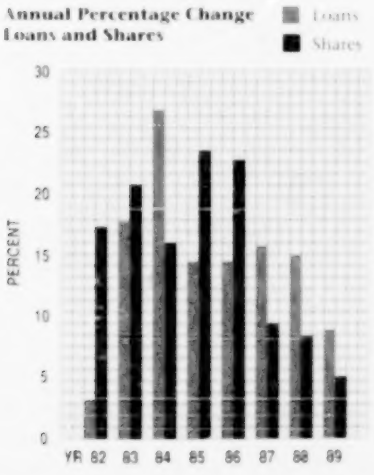
[2] First charter approved October 1, 1934.

Selected Data for Federal Credit Unions

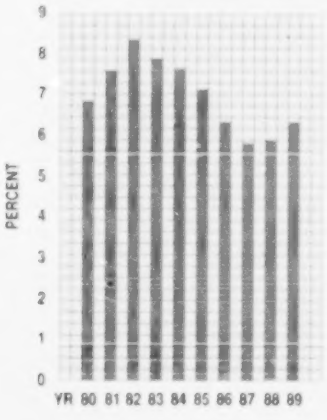
December 31, 1934 to 1989 (continued)

Year	Charters Issued	Charters Canceled	Net Change	Total Outstanding	Inactive Credit Unions	Active Credit Unions	Members	(amounts in thousands of dollars) Assets	Shares	Loans Outstanding
1969	705	323	382	13,404	483	12,921	11,301,805	$ 7,793,573	$ 6,713,385	$ 6,328,720
1970	563	412	151	13,555	578	12,977	11,966,181	8,860,612	7,628,805	6,969,006
1971	400	461	-61	13,494	777	12,717	12,702,135	10,533,740	9,191,182	8,071,201
1972	311	672	-361	13,133	425	12,708	13,572,312	12,513,621	10,956,007	9,424,180
1973	364	523	-159	12,974	286	12,688	14,665,890	14,568,736	12,597,607	11,109,015
1974	367	369	-2	12,972	224	12,748	15,870,434	16,714,673	14,370,744	12,729,653
1975	373	334	39	13,011	274	12,737	17,066,428	20,208,536	17,529,823	14,868,840
1976	354	387	-33	12,978	221	12,757	18,623,862	24,395,896	21,130,293	18,311,204
1977	337	315	22	13,000	250	12,750	20,426,661	29,563,681	25,576,017	22,633,860
1978	348	298	50	13,050	291	12,759	23,259,284	34,760,098	29,802,504	27,686,584
1979	286	336	-50	13,000	262	12,738	24,789,647	36,467,850	31,831,400	28,547,097
1980	170	368	-198	12,802	362	12,440	24,519,087	40,091,855	36,263,343	26,350,277
1981	119	554	-435	12,367	398	11,969	25,459,059	41,905,413	37,788,699	27,203,672
1982	114	556	-442	11,925	294	11,631	26,114,649	49,755,270	45,503,266	27,998,657
1983	107	736	-629	11,296	320	10,976	26,798,799	54,481,827	49,889,313	33,200,715
1984	135	664	-529	10,767	219	10,548	28,191,922	63,656,321	57,929,124	42,133,018
1985	55	575	-520	10,247	122	10,125	29,578,808	78,187,651	71,616,202	48,240,770
1986	59	441	-382	9,865	107	9,758	31,041,142	95,483,421	87,953,642	55,304,267
1987	41	460	-419	9,446	45	9,401	32,066,542	105,189,725	96,346,488	64,104,411
1988	45	201	-156	9,290	172	9,118	34,438,304	114,564,579	104,431,487	73,766,200
1989	23	307	-284	9,006	185	8,821	35,612,317	120,666,414	109,652,600	80,272,306

Annual Percentage Change Loans and Shares



Effective Cost of Shares



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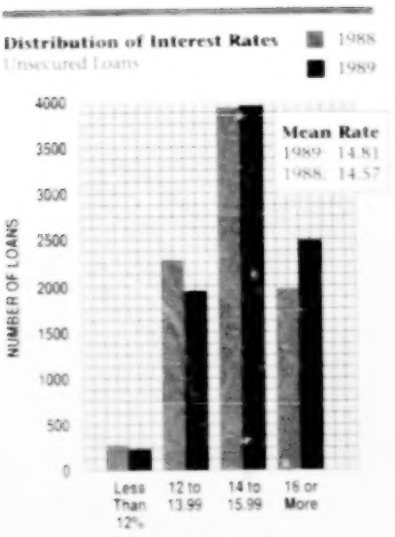
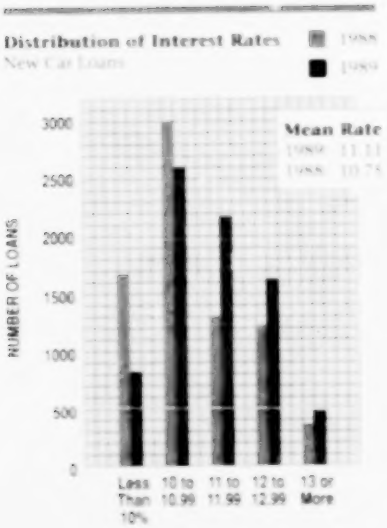
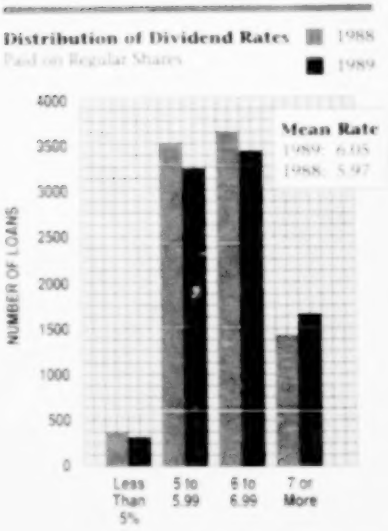
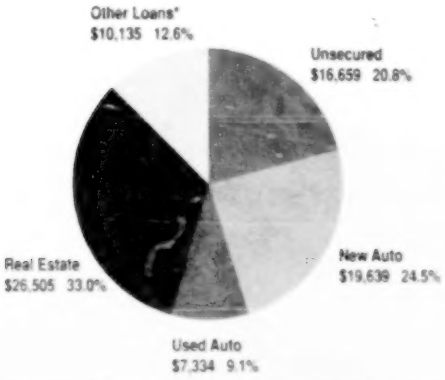

Distribution of Interest Rates
Unsecured Loans
1988
1989
Mean Rate
1989: 14.81
1988: 14.57
NUMBER OF LOANS
4000
3500
3000
2500
2000
1500
1000
500
0
Less Than 12%
12 to 13.99
14 to 15.99
16 or More


Distribution of Interest Rates
New Car Loans
1988
1989
Mean Rate
1989: 11.11
1988: 10.75
NUMBER OF LOANS
3000
2500
2000
1500
1000
500
0
Less Than 10%
10 to 10.99
11 to 11.99
12 to 12.99
13 or More

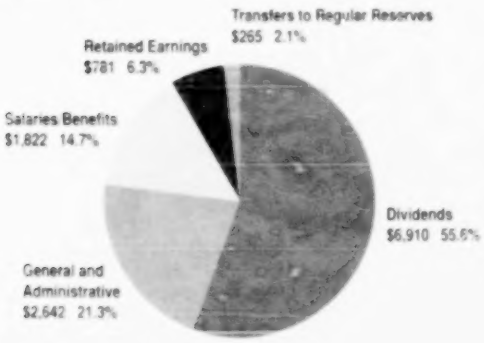

Distribution of Dividend Rates
Paid on Regular Shares
1988
1989
Mean Rate
1989: 6.05
1988: 5.97
NUMBER OF LOANS
4000
3500
3000
2500
2000
1500
1000
500
0
Less Than 5%
5 to 5.99
6 to 6.99
7 or More

Loan Distribution
(in millions)

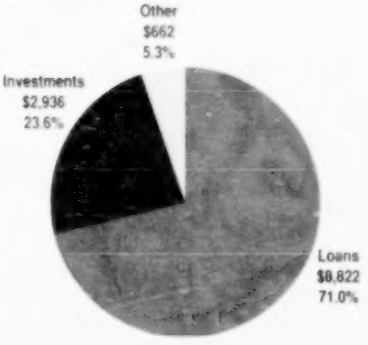


*Agricultural	$ 45	0.1%
Commercial	$ 914	1.1%
Miscellaneous	$9,176	11.4%

Uses of Funds
(in millions)



Sources of Income
(in millions)



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Federal Credit Union Data 10 Year Summary, 1980 to 1989

December 31 (Dollar amounts in millions)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Number of credit unions	12,440	11,999	11,631	10,975	10,548	10,126	9,758	9,401	9,119	6,821
Number of members	24,519,087	25,459,359	26,114,649	26,798,799	28,191,922	29,516,606	31,041,142	32,066,542	34,436,304	35,612,317
Assets	$37,515	$39,191	$45,494	$54,462	$63,656	$79,188	$95,464	$105,190	$114,565	120,666
Loans outstanding	26,165	27,236	28,192	33,201	42,133	48,241	55,305	64,104	73,766	80,272
Shares	30,812	35,248	41,352	49,891	57,929	71,616	87,354	96,346	104,431	109,653
Reserves	1,473	1,614	1,773	2,007	2,451	2,884	3,312	3,725	4,216	4,690
Undivided earnings	729	906	1,114	1,281	1,592	2,063	2,506	3,023	3,567	4,072
Gross income	3,894	4,681	5,406	6,364	7,454	8,526	9,416	10,158	11,173	12,420
Operating expenses	1,498	1,660	1,802	2,045	2,314	2,674	3,115	3,565	3,931	4,364
Dividends	2,185	2,656	3,186	3,573	4,413	5,090	5,506	5,624	6,148	6,910
Reserve transfers	98	147	147	196	260	282	250	237	232	265
Net income	43	219	244	287	473	521	429	588	799	781
PERCENT CHANGE										
Total assets	6.2%	4.4%	16.1%	19.8%	16.8%	22.8%	22.1%	10.2%	8.9%	5.3%
Loans outstanding	17.2	4.1	3.5	17.8	26.9	14.5	14.6	15.9	15.1	8.8
Savings	9.9	4.2	17.3	20.6	16.1	23.6	22.0	9.5	8.4	5.0
Reserves	3.3	9.6	9.9	13.2	22.1	17.7	14.8	12.5	13.2	11.2
Undivided earnings	12.7	27.8	23.4	14.6	24.3	29.6	21.5	20.6	18.0	14.2
Gross income	8.3	22.4	15.5	17.7	22.9	14.4	10.4	7.9	10.0	11.2
Operating expenses	4.9	10.8	9.8	12.2	13.2	15.6	16.5	15.1	9.7	11.0
Dividends	17.3	21.6	19.9	12.2	23.5	15.3	8.2	2.1	9.3	12.4
Net reserve transfers	11.4	50.0	0.0	32.9	32.5	8.5	11.3	5.2	2.1	14.2
Net income	171.9	409.3	11.4	17.6	64.8	10.1	35.2	9.9	16.1	2.3
SIGNIFICANT RATIOS										
Reserves to assets	3.9%	4.1%	3.9%	3.7%	3.9%	3.7%	3.5%	3.5%	3.7%	3.9%
Reserves and undivided earnings to assets	5.8	6.4	6.4	6.0	6.4	6.3	6.1	6.4	6.8	7.3
Reserves to loans	5.6	5.9	6.3	6.0	5.8	6.0	6.0	5.8	5.7	5.8
Loans to shares	77.4	77.3	68.2	66.5	72.7	67.4	62.9	66.5	70.6	73.2
Operating expenses to gross income	39.2	35.5	33.7	33.7	31.0	31.4	33.1	35.3	35.2	35.1
Salaries and benefits to gross income	14.7	14.1	14.1	14.4	13.8	13.6	14.1	14.6	14.8	14.7
Dividends to gross income	57.1	56.7	58.9	56.1	59.2	59.7	58.5	55.4	55.0	55.6
Yield on average assets	10.5	12.2	12.8	12.1	11.7	12.0	10.8	10.1	10.2	10.6
Cost of funds to average assets	6.4	7.2	7.8	7.1	7.0	7.2	6.4	5.6	5.7	6.0
Gross spread	4.0	5.1	5.3	5.0	4.7	4.8	4.5	4.5	4.5	4.6
Net income divided by gross income	1.1	4.7	4.5	4.5	6.3	6.1	5.6	6.8	7.2	6.3
Yield on average loans	11.0	12.5	13.6	13.7	12.4	13.5	12.7	11.6	11.3	11.5
Yield on average investments	10.3	12.8	12.3	10.8	11.0	9.5	7.9	7.7	7.9	8.4

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Federally Insured State Credit Union Data 10 Year Summary, 1980 to 1989

December 31 (Dollar amounts in millions)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Number of credit unions	4,910	4,994	5,023	4,915	4,645	4,920	4,935	4,934	4,760	4,550
Number of members	12,337,726	12,954,206	13,113,393	14,277,816	15,205,029	15,689,048	17,362,780	17,998,921	18,518,969	18,858,497
Assets	$20,870	$22,584	$24,089	$27,479	$29,188	$41,525	$52,244	$56,972	$60,740	$63,022
Loans outstanding	14,582	15,341	15,282	17,215	19,951	26,168	30,834	35,436	39,977	42,336
Shares	18,469	20,007	21,636	24,297	26,327	37,917	48,097	52,083	55,217	57,517
Reserves	1,086	1,191	1,250	1,341	1,409	1,781	2,147	2,423	2,612	2,833
Undivided earnings	397	508	601	655	728	1,065	1,253	1,458	1,651	1,942
Gross income	2,142	2,745	2,879	3,062	3,428	4,508	5,117	5,483	5,973	6,518
Operating expenses	760	905	981	1,024	1,060	1,364	1,655	1,884	2,078	2,206
Dividends	1,218	1,554	1,584	1,747	1,975	2,684	3,004	3,049	3,201	3,664
Reserve transfers	NA	128	131	130	179	227	201	184	158	155
Net income	NA	164	190	165	219	256	288	355	470	452
PERCENT CHANGE										
Total assets	13.1%	8.2%	6.7%	14.1%	6.2%	42.3%	25.8%	9.0%	6.6%	3.8%
Loans outstanding	4.1	5.2	0.4	12.6	15.9	31.2	17.8	14.9	12.8	5.9
Savings	16.4	8.3	8.1	12.3	8.4	44.0	26.8	8.3	6.0	4.2
Reserves	7.1	9.7	5.0	7.3	5.1	26.4	20.6	12.9	7.8	8.5
Undivided earnings	13.4	28.0	18.3	9.0	11.1	46.3	17.7	16.4	13.2	17.6
Gross income	15.8	28.2	4.9	6.4	12.0	31.5	13.5	7.2	8.9	9.1
Operating expenses	15.2	19.1	8.4	4.4	3.5	28.7	21.3	13.8	10.3	6.2
Dividends	35.5	27.6	1.9	10.3	13.1	35.9	11.9	1.5	5.0	14.5
Net reserve transfers	NA	NA	2.3	-0.8	37.7	26.8	11.5	-8.5	-14.1	1.9
Net income	NA	NA	15.9	13.2	32.7	16.9	12.5	23.3	32.4	-3.8
SIGNIFICANT RATIOS										
Reserves to assets	5.2%	5.3%	5.2%	4.9%	4.8%	4.3%	4.1%	4.3%	4.3%	4.5%
Reserves and undivided earnings to assets	7.1	7.5	7.7	7.3	7.3	6.9	6.5	6.8	7.0	7.6
Reserves to loans	7.4	7.8	8.2	7.8	7.1	6.8	7.0	6.8	6.5	6.7
Loans to shares	79.0	76.7	70.6	70.9	75.8	69.0	64.1	68.0	72.4	73.6
Operating expenses to gross income	35.5	33.0	34.1	33.4	30.9	30.3	32.3	34.4	34.8	33.8
Salaries and benefits to gross income	13.7	13.0	14.0	14.4	13.6	13.4	13.9	14.5	14.5	14.4
Dividends to gross income	56.9	56.6	55.0	57.1	57.6	59.5	58.7	55.6	53.6	56.2
Yield on average assets	10.9	12.6	12.3	11.9	12.1	12.7	11.2	10.4	10.1	10.5
Cost of funds to average assets	6.6	7.5	7.9	6.9	7.1	7.6	6.4	5.5	5.5	5.9
Gross spread	4.3	5.1	5.3	5.0	5.0	5.1	4.5	4.3	4.6	4.5
Net income divided by gross income	NA	6.0	6.6	5.4	6.4	5.7	5.6	6.5	7.9	6.9
Yield on average loans	11.2	12.6	13.3	13.3	13.2	14.3	12.7	11.1	11.2	11.4
Yield on average investments	10.7	13.5	11.4	9.9	10.5	10.0	8.0	7.5	7.9	8.4

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[illegible] for loan losses.

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CORPORATE CREDIT UNION DATA

Federal Corporate Credit Unions
December 31

Corporate name	City, State	Assets (in millions)
Capital Corporate	Landover, Maryland	$ 392.6
Colorado Corporate	Arvada, Colorado	564.5
Eastern Corporate	Stoneham, Massachusetts	318.2
Empire Corporate	Albany, New York	1,089.0
Indiana Corporate	Indianapolis, Indiana	651.8
Kentucky Corporate	Louisville, Kentucky	159.1
LCCU Corporate	Endicott, New York	3.0
Mid-Atlantic Corporate	Harrisburg, Pennsylvania	560.8
Mid-States Corporate	Oak Brook, Illinois	1,732.6
Nebraska Corporate Central	Omaha, Nebraska	96.5
Pacific Corporate	Honolulu, Hawaii	234.2
South Dakota Corporate Central	Sioux Falls, South Dakota	58.1
Southeast Corporate	Tallahassee, Florida	801.4
Southwest Corporate	Dallas, Texas	2,565.7
Treasury Federal Credit Union	Portland, Maine	217.2
Virginia League Corporate	Lynchburg, Virginia	443.9
Western Corporate	Pomona, California	3,447.1

Federally Insured State Corporate Credit Unions
December 31

Corporate name	City, State	Assets (in millions)
Alabama Corporate	Birmingham, Alabama	$239.1
Connecticut State Corporate	South Washington, Connecticut	369.2
Corporate Central Credit Union	Salt Lake City, Utah	157.2
Corporate Credit Union of Arizona	Phoenix, Arizona	201.7
Federación de Cooperativas	San Juan, Puerto Rico	63.3
First Carolina Corporate	Greensboro, North Carolina	732.3
Georgia Central	Atlanta, Georgia	465.6
Iowa League Corporate	Des Moines, Iowa	190.4
Minnesota Central	St. Paul, Minnesota	211.2
Ohio League Corporate	Columbus, Ohio	452.5
Oklahoma Corporate	Tulsa, Oklahoma	276.3
Oregon Corporate Central	Portland, Oregon	170.2
The Carolina Corporate	Columbia, South Carolina	171.2

Key Statistics on Federally Insured Corporate Credit Unions

December 31 (Dollar amounts in millions)

	1985	1986	1987	1988	1989
Number	29	29	30	30	30
Assets	$9,060.6	$12,182.1	$12,473.4	$13,996.9	$17,209.4
Loans	459.8	621.0	1,302.8	1,584.7	1,026.2
Shares	8,024.2	10,851.0	10,699.4	11,234.6	14,501.6
Reserves	84.1	104.1	126.8	146.6	172.5
Undivided earnings	38.4	45.3	56.2	69.6	82.6
Gross income	663.9	785.5	927.5	1,084.1	1,485.4
Operating expenses	21.2	25.4	29.5	33.8	41.6
Interest on borrowing	45.5	47.9	75.7	139.7	260.0
Dividends and interest on deposits	575.9	685.9	790.6	877.4	1,145.4
Reserve transfers	10.5	17.2	17.5	16.8	18.8
Net income	11.4	9.0	14.7	17.2	19.9
SIGNIFICANT RATIOS					
Reserves to assets	0.9%	0.9%	1.0%	1.0%	1.0%
Reserves and undivided earnings to assets	1.4	1.3	1.5	1.5	1.5
Reserves to loans	18.3	16.8	9.7	9.3	16.8
Loans to shares	5.7	5.7	12.2	14.1	7.1
Operating expenses to gross income	3.2	3.2	3.2	3.1	2.8
Salaries and benefits to gross income	1.1	1.2	1.3	1.3	1.1
Dividends to gross income	86.7	87.3	85.2	80.9	77.1
Yield on average assets	8.7	7.4	7.9	8.2	9.5
Cost of funds to average assets	8.1	6.9	6.8	7.1	9.0
Gross spread	0.6	0.6	0.5	0.5	0.5
Net income divided by gross income	1.7	1.1	1.6	1.6	1.3
Yield on average loans	7.8	7.1	7.5	9.1	13.3
Yield on average investments	8.8	7.5	7.6	8.2	9.5

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Board Members

Roger W. Jepsen, chairman of the NCUA Board since October 1985, was nominated to a full six-year term in 1987. Chairman Jepsen was a member of the U.S. Senate from the state of Iowa from 1979 to 1984. He was a member of the Armed Services Committee, the Agriculture, Nutrition and Forestry Committee, and the Joint Economic Committee, which he chaired for two years. He served two terms as lieutenant governor of Iowa and four years as Scott County supervisor. A native of Cedar Falls, he served in the U.S. Army, and received bachelor and masters degrees from Arizona State University, Tempe.

Elizabeth F. Burkhart, vice chairman, was appointed in 1982 and nominated for a full six-year term in 1985. She was named vice chairman in 1987. Mrs. Burkhart, a Texan, was deputy treasurer of the Reagan-Bush Campaign Committee in 1980 and was associate deputy administrator of the Veterans Administration in 1981. Her career has included teaching and 10 years in banking. She graduated from Midwestern University, received a master's degree in business administration from Houston Baptist University, and attended Southwestern Graduate School of Banking at Southern Methodist University, Dallas.

David E. Chatfield resigned from the NCUA Board in August 1989 to become executive director of the Filene Research Institute at the University of Wisconsin School of Business, Madison. The Institute was established by Credit Union National Association and CUNA Mutual Insurance Group. He was senior vice president of Alaska USA Federal Credit Union, Anchorage, when he was appointed to the NCUA Board in April 1988, and has served in many volunteer and professional positions with credit unions.

Officers

Roger W. Jepsen
Chairman

Elizabeth F. Burkhart
Vice Chairman

Donald E. Johnson
Executive Director

Rebecca J. Baker
Secretary of the Board

Charles H. Bradford
Chief Economist

Susan L. Nelowet
Executive Assistant to the Chairman

Teresa A. Castro
Executive Assistant to the Vice Chairman

Robert M. Fenner
General Counsel

D. Michael Riley
Director
Office of Examination and Insurance

Robert E. Loftus
Director
Office of Public and Congressional Affairs

Robert J. LaPorte
President
Central Liquidity Facility

Herbert S. Yolles
Controller

Joan E. Perry
Inspector General

Benny R. Henson
Director of Administration

Joseph W. Visconti
Director
Office of Information Systems

Dorothy W. Foster
Director
Office of Personnel

Layne L. Bumgardner
Director, Region I

Daniel L. Murphy
Director, Region II

H. Allen Carver
Director, Region III

Nicholas Veghts
Director, Region IV

John S. Ruffin
Director, Region V

Foster C. Bryan
Director, Region VI

J. Leonard Skiles
Director
Asset Liquidation
Management Center

Board Member Robert H. Swan was confirmed by the U.S. Senate April 4, 1990.

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Offices

Central Office
1776 G St. N.W.
Washington, DC 20456
202-682-9600

Region I
9 Washington Square
Albany, NY 12205
518-472-4554

Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Puerto Rico, Rhode Island, Vermont, Virgin Islands

Region II
1776 G St. N.W. #8001
Washington, DC 20006
202-682-1900

Delaware, District of Columbia, Maryland, Pennsylvania, Virginia, West Virginia

Region III
7000 Central Pkwy. #1600
Atlanta, GA 30328
404-396-4042

Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee

Region IV
300 Park Blvd. #155
Itasca, IL 60143
708-250-6000

Illinois, Indiana, Michigan, Missouri, Ohio, Wisconsin

Region V
4807 Spicewood Springs Rd. #5200
Austin, TX 78759
512-482-5500

Arizona, Colorado, Iowa, Kansas, Minnesota, Nebraska, New Mexico, North Dakota, Oklahoma, South Dakota, Texas, Utah, Wyoming

Region VI
2300 Clayton Rd. #1350
Concord, CA 94520
415-825-6125

Alaska, American Samoa, California, Guam, Hawaii, Idaho, Montana, Nevada, Oregon, Washington

St. Mary's Bank (La Caisse Populaire Ste-Marie), Manchester, New Hampshire, first credit union in the United States, November 24, 1908.